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September 17, 1999

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BY HAND DELIVERY

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Federal Communications Commission
Office of Secretary

Re: Access Charge Reform, CC Docket No. 96-262
Price Cap Performance Review for Local Exchange
Carriers, CC Docket No. 94-1
Low Volume Long Distance Users, CC Docket No. 99-249
Federal-State Joint Board on Universal Service,
CC Docket No. 96-45

Dear Ms. Salas:

Pursuant to the FCC's Public Notice FCC 99-235, released September 15, 1999, enclosed for filing in the above-referenced docket, CC No. 96-262, are the original and four copies of the "Comments of Qwest Communications Corp." Also enclosed are two additional copies for inclusion in each of the other dockets. Three copies of the comments have been forwarded to Wanda Harris of the Competitive Pricing Division and a diskette containing the comments has been forwarded to ITS.

Please contact the undersigned if you have any questions.

Respectfully submitted,



Linda L. Oliver
Counsel for Qwest Communications
Corp.

Enclosures

cc: Wanda Harris, Competitive Pricing Division
ITS

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Federal Communications Commission
Office of Secretary

Before the
FEDERAL COMMUNICATIONS COMMISSION

In the Matter of)	
)	
Access Charge Reform)	CC Docket No. 96-262
)	
Price Cap Performance Review for Local)	
Exchange Carriers)	CC Docket No. 94-1
)	
Low Volume Long Distance Users)	CC Docket No. 99-249
)	
Federal-State Joint Board on)	CC Docket No. 96-45
Universal Service)	

COMMENTS OF
QWEST COMMUNICATIONS CORPORATION

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Counsel for Qwest
Communications Corporation

November 12, 1999

**Before the
FEDERAL COMMUNICATIONS COMMISSION**

In the Matter of)	
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Access Charge Reform)	CC Docket No. 96-262
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Price Cap Performance Review for Local Exchange Carriers)	CC Docket No. 94-1
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Federal-State Joint Board on Universal Service)	CC Docket No. 96-45

**COMMENTS OF
QWEST COMMUNICATIONS CORPORATION**

Qwest Communications Corp., through its attorneys, hereby respectfully submits its comments in support of the July 29, 1999, proposal of the Coalition for Affordable Local and Long Distance Service (CALLS) for universal service and interstate access reform.^{1/}

INTRODUCTION

As a provider of both interexchange and local services, and of both voice and data services, Qwest has a strong interest in the size and structure of interstate access charges and the manner in which universal service subsidies are collected and distributed. ^{2/} Qwest supports the CALLS plan because it moves in

^{1/} Notice of Proposed Rulemaking, FCC 99-235, released September 15, 1999.

^{2/} Qwest is a communications company offering a full range of voice, data, video and information services both domestically and internationally. Qwest has completed the construction of an 18,500-mile, 150-city domestic fiber optic network

the direction of rationalizing the current access charge scheme. A more cost-based scheme will be more compatible with a developing competitive local marketplace and with future RBOC entry into the interLATA business. Although the plan is the result of compromise, and therefore not perfect, it provides the Commission with the platform for moving the access charge scheme to a better structure – a goal that will be all the more urgent if the Bell operating companies succeed in obtaining interLATA authority in the near future.

DISCUSSION

As an interexchange carrier and purchaser of interstate access, Qwest supports the CALLS proposal because under that proposal, interstate usage-sensitive access charges would be substantially reduced. The Commission already has concluded that access charges are above cost.^{3/} By reducing carrier access charges, the CALLS proposal would have the effect of bringing long distance rates closer to their true cost, which will benefit consumers and stimulate increased demand. More cost-based access charges would also help to eliminate the competitive distortions inherent in such charges. This goal is particularly important when carriers purchasing access must compete with an ILEC to provide

that offers customers and carriers the ability to transmit massive amounts of communications information throughout the United States, and has international facilities to Mexico, Europe, and Asia. Qwest also has announced a 25-city deployment of local telephone facilities and a planned roll-out of commercial DSL-based services in over 40 cities by the end of this year.

^{3/} Access Charge Reform, First Report and Order, 12 FCC Rcd 15982 (1997), aff'd sub nom. Southwestern Bell Tel. Co. v. FCC, 153 F.3d 523 (8th Cir. 1998).

interexchange services to that ILEC's local customers. A more rational access charge structure also will make it more likely that a truly competitive local market will develop and that all consumers will benefit from that competition.

Qwest will not discuss at length the nature of the CALLS proposal or the rationale for its various components. The August 20, 1999, memorandum filed by CALLS in support of its proposal does an effective job on that score. 4/ Instead, Qwest focuses in these comments on the public policy reasons why the Commission should adopt the CALLS plan. The CALLS plan helps achieve the following important public policy goals, which we discuss more fully below:

1. It moves more of the non-traffic-sensitive costs from usage-based access charges to flat-rated end user charges, thereby sending the proper economic signals to consumers and to competitors.
2. It moves carrier access charges in the direction of cost.
3. It makes more of the subsidies for universal service explicit. 5/

1. Cost-Based Pricing

The Commission long ago recognized that a system of access charges that recovers non-traffic-sensitive costs through usage-sensitive rates is not cost-based and that such a system generates retail prices that do not reflect the actual

4/ Memorandum in Support of the Coalition for Affordable Local and Long Distance Service Plan, filed August 20, 1999 ("CALLS Memorandum").

5/ As noted below, the CALLS proposal does not attempt to deal with the question of the extent to which amounts recovered through access charges represent legitimate subsidy payments.

costs of providing service to consumers.^{6/} In its 1983 decision revamping the access charge scheme, the Commission endeavored to move in the direction of eliminating these inefficiencies by shifting as much of the usage-sensitive costs as possible to flat end user charges (subscriber line charges or "SLCs").^{7/} Again, in 1997, the Commission restructured access charges to shift more of the usage-based charges to flat charges levied on interexchange carriers (albeit through the device of "primary interexchange carrier charges" or "PICCs").^{8/}

The job of making the access charge rate structure reflect cost causation is far from complete, however. As the Commission has recognized, traffic-sensitive access charges still recover many non-traffic-sensitive costs.^{9/} The CALLS proposal is an attempt to eliminate most of the rest of those costs from traffic-sensitive rates.

Consumers should be better off with a move to flat-rated recovery of non-usage-based costs, as CALLS points out.^{10/} Due in part to reductions in usage-based access charges over the last two decades, long distance rates – and thus to cost of telecommunications services -- already have dropped significantly. With

^{6/} MTS and WATS Market Structure, Third Report and Order, CC Docket No. 78-72, Phase I, 93 FCC 2d 241, 251-52, recon. 97 FCC 2d 682 (1983), second recon. 97 FCC 2d 834 (1984), aff'd in part and remanded in part sub nom. NARUC v. FCC 737 F. 2d 1095 (D.C. Cir. 1984), cert denied, 469 U. S. 1227 (1985).

^{7/} Id., 93 FCC 2d at 245-254.

^{8/} Access Charge Reform, First Report and Order, 12 FCC Rcd 15982.

^{9/} Id. at ¶ 28.

^{10/} CALLS Memorandum at 15-22.

lower prices, toll usage has grown rapidly, which has enabled carriers to achieve greater efficiencies, lower costs, and fueled the development of advanced networks such as Qwest's. Competition and lower unit costs of providing service also have contributed to driving those rates down, and will continue to do so.

As the coalition correctly points out, the costs of long distance service are a key factor in the affordability of telephone service to residential consumers, and this plan will have the effect of reducing long distance charges further. 11/ These further long distance rate reductions that result from a shift of costs to flat-rated charges should increase telephone subscribership, demand for long distance services, and overall consumer welfare. The plan contains protections for residential consumers, too, because it retains a cap on the end user charge (albeit higher than today), and it bolsters the lifeline assistance for lower income consumers.

2. Reduction in Pricing Distortions

The distortions created by a non-cost-justified rate structure for access are substantial even when the incumbent local exchange carrier is a monopolist and is not providing long distance service in competition with other carriers who are paying above-cost rates for exchange access. But when the local market is opened to competition, as it is now, and when incumbent LECs are allowed to provide long distance service, then the competitive distortions of a non-cost-justified access structure and non-cost-based access rates are far more serious.

11/ CALLS Memorandum at 16-17.

ILEC per-minute access charges are generally viewed as being above economic cost today. ^{12/} Yet, unlike the ILECs' competitors, the ILECs' own long-distance operations do not actually incur such charges as a real input cost to the extent that the access charge is set above the level of economic cost. This is so even if the ILECs' long distance entity nominally incurs such charges, and even if it imputes such charges in their long distance rates. This is so because access charge payments by an ILEC's long distance entity to the ILEC are simply a "pocket to pocket" transfer.

This distortion gives the ILECs an unjustified cost advantage over their competitors, since they provide access for the vast majority of interstate calls. Under the CALLS plan that problem becomes less serious, because carrier access charges are brought closer to cost.

Above-cost access charges will also harm local competition by giving ILEC long distance affiliates an unearned price advantage over the offerings of Qwest and other long distance carriers. Long distance carriers are some of the strongest potential competitors in the local telephone market. But ILECs' unique ability to internalize above-cost access charges will give ILEC long distance affiliates a price advantage in a very price-sensitive market. This will almost certainly result in a transfer of market share – and revenues – from IXC's such as Qwest to ILECs. The revenues that IXC's lose as a result of this regulatory deficiency are revenues that are unavailable to IXC's for entering local markets.

^{12/} Access Charge Reform, First Report and Order, supra, 12 FCC Rcd 15982 at

3. Explicit Subsidies for Universal Service

Probably because it is the result of a compromise, the CALLS plan does not determine to what extent the amounts to be moved to the universal service fund are actually legitimate and needed subsidies for the support of the goal of promoting universal service. Thus, the CALLS plan does not answer the threshold question whether the amounts labeled as "universal service" are indeed legitimate subsidy amounts.

That being said, however, the CALLS plan nevertheless moves the Commission closer to meeting the statutory requirement that subsidies be made explicit.^{13/} The Commission has already concluded that the usage-based recovery of loop costs – the principal defect corrected by the CALLS proposal – constitutes an implicit subsidy between customers:

Because NTS costs, by definition, do not vary with usage, the recovery of NTS costs on a usage basis pursuant to our current access charge rules amounts to an implicit subsidy from high-volume users of interstate toll services to low-volume users of interstate toll services. ^{14/}

^{¶¶} 28-31, 43, 45.

^{13/} 47 U.S.C. § 254(e); CALLS Memorandum at 2-4.

^{14/} Access Charge Reform, First Report and Order, supra., 12 FCC Rcd 15982 [¶] 6.

Further, as the Fifth Circuit observed in its recent decision on the FCC's Universal Service Order, the Act requires that subsidies be removed from access charges. 15/ Subsidies are incompatible with competition for both local and long distance services, and they distort investment and consumption decisions.

The CALLS proposal also provides, as it should, for portability of "universal service" subsidies. 16/ All eligible competitive service providers should be able to take advantage of these subsidies to provide competitive local service to the intended beneficiaries of those services.

In sum, although the CALLS plan does not answer the important question regarding the proper magnitude of universal service subsidies, it nevertheless attempts to restructure access charges in a way to reduce the implicit subsidies between customers that today distort competition.

* * * *

In sum, because the CALLS plan advances many public interest goals, the Commission should adopt the plan. Keeping carrier access charges artificially above cost is increasingly untenable in a competitive world in which barriers between markets are being torn down. The best should not become the enemy of the good, as it could if the Commission rejects the CALLS plan while it continues to search for a perfect solution.

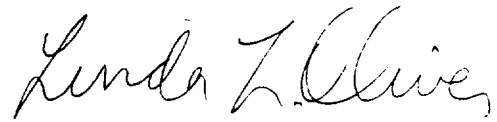
15/ Texas Office of Public Utility Counsel, et al v. FCC, 183 F 3d. 393, 425 (5th Cir. 1999).

16/ CALLS Memorandum at 28-31.

CONCLUSION

Qwest urges the Commission to adopt the CALLS proposal for the reasons given above. If the Commission does not adopt the proposal, it must reform the access charge scheme to remove all implicit subsidies from access charges and order cost-based access rates as soon as possible.

Respectfully submitted,



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November 12, 1999

CERTIFICATE OF SERVICE

I, Barbara E. Clocker, hereby certify that on this 12th day of November, 1999, I caused to be served the foregoing Comments of Qwest Communications Corp. in CC Docket No. 96-262, et al on the attached list by hand delivery.



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